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The Climate Trust Comments to the California Market Advisory Committee

Thank you for providing The Climate Trust with the opportunity to submit comments to the Market Advisory Committee (MAC). The Market Advisory Committee has a tremendous job to do over the next several months in crafting recommendations regarding the design of California's market based compliance program, and the wide breadth and depth of experience and expertise needed to do so. We commend California and the Market Advisory Committee for its pioneering lead in the development of comprehensive greenhouse gas emission reduction policies under Assembly Bill 32.

The mission of The Climate Trust, a 501(c)(3) non-profit organization, is to provide climate change solutions by purchasing high quality greenhouse gas (GHG) offsets from projects that reduce greenhouse gas emissions, and advancing sound offset policy. The Climate Trust's principal role is to purchase offsets on behalf of entities interested in mitigating their greenhouse gas emissions through the implementation of projects that lead to verifiable reductions of greenhouse gas levels in the atmosphere. As one of the largest purchasers of offsets in the U.S., The Climate Trust has $8.9 million invested in a diverse portfolio of 17 offset projects, accounting for 2.7 million metric tons of greenhouse gas reductions.

Introduction

Greenhouse gas offsets are an important part of California (and the world's) strategy to stabilize and reduce levels of greenhouse gases. However, achieving the important benefits that GHG offsets offer to society is predicated on projects being able to credibly achieve the same level of emissions reductions that would otherwise be achieved through on-site reductions by emitters.

The Climate Trust recognizes that there are both opportunities and challenges presented by the incorporation of offsets in greenhouse gas reduction strategies and that several key concerns have been raised around

offsets as a credible means with which to achieve real reductions in greenhouse gas levels. The Climate Trust would like to take this opportunity to address those concerns as we understand them and to contribute the unique perspective and experience our organization has gained under the Oregon Carbon Dioxide Standard, the nation's first regulation of greenhouse gases.

There are four primary stakeholder concerns that have been expressed regarding the incorporation of offsets in California's strategy to achieve reductions in greenhouse gas levels. These concerns focus on the following elements:

- **environmental integrity,**
- **geographic scope,**
- **technological development and innovation, and**
- **offset project type and eligibility.**

Each of these concerns are addressed below.

Environmental Integrity

There are significant opportunities for the implementation of technologies and practices in every sector of the U.S. economy that result in real, measurable reductions in greenhouse gas emissions. These opportunities range from retrofitting technology in long haul trucks to changing waste management practices in landfills and dairy operations to the development of renewable energy projects. For a variety of reasons, many of these opportunities are not being taken advantage of today. These reasons range from a lack of information to high initial capital investment requirements to long payback periods and low rates of return on investment. Offset funding for greenhouse gas reduction projects can provide the necessary incentive to stimulate the implementation of these emissions reduction opportunities and to move the United States towards a lower carbon future.

When properly implemented, project-based emissions reductions are a high-quality environmental commodity. However, achieving the important benefits that offsets offer to society is predicated on projects being able to achieve the same level of greenhouse gas reductions that would otherwise be required through on-site reductions by emitters. Offsets that do not meet this test do not deliver on the basic promise that an offset makes: to reduce atmospheric greenhouse gas levels to what they would have been if the emissions being offset did not occur in the first place.

Greenhouse gas offset projects can and do result in real, measurable reductions in greenhouse gas levels. However, the current greenhouse gas reduction market is unstandarized, which means that offset projects in the market are not necessarily equivalent to one another in terms of quality and environmental integrity. Moreover, due to the myriad project types from which GHG offsets can be generated, developing

comprehensive standards is time and labor intensive. However, these challenges can and are being overcome through the development of rigorous offset project criteria and practices. The Climate Trust has implemented high quality greenhouse gas reduction projects since 2001.

The following are the key criteria that The Climate Trust believes all offset projects should meet to ensure that the intended reductions of greenhouse gas emissions occur. The Climate Trust also believes that these criteria, which are consistent with other generally accepted guidelines such as The Greenhouse Gas Protocol for Project Accounting, The World Bank's Prototype Carbon Fund, and the Kyoto Protocol's Clean Development Mechanism (CDM), establish the foundation of carbon offset quality in both regulated and voluntary markets.

1. **Additionality.** Additionality is an essential determinant of the effectiveness of an offset project and one of the most important factors in assessing project quality. Additionality is a policy term by which an assessment is made regarding whether or not a project's emissions reductions are *in addition to* a business as usual scenario. Additionality is the metric by which a project demonstrates that it is resulting in a real, measurable reduction in atmospheric levels of GHGs. There are a number of ways that a GHG reduction project can demonstrate that its activities are "above and beyond" the business as usual scenario, most commonly through what are known as barrier tests. These tests are intended to demonstrate that the funding for the GHG offset was instrumental in the project's implementation. Policy under AB 32 should establish strong additionality criteria for greenhouse gas offsets.
2. **Project Baseline.** The project baseline is intended to demonstrate what greenhouse gas emission levels would have been in the absence of the GHG reduction project. Credible GHG emissions reductions can only be assessed if the baseline upon which the calculation is based is an accurate and realistic reflection of the business as usual emissions scenario.
3. **Monitoring and Verification.** Emissions reductions from GHG offset projects must be accurately quantified and verified. Each project must have a monitoring and verification (M&V) plan specific to that particular project that defines how, when and by whom the quantification and verification will be done. To ensure proper quantification and verification methodologies, the M&V plans should be written with the help of experts familiar with the specifics of a project. All emissions reductions should be verified by an independent, third party verifier. There are established standards that can and should be used to develop and implement these M&V plans, examples include: the World Resources

Institute's Greenhouse Gas Protocol for Project Accounting and the International Standards Organization 14064 and 14065 Protocols.

4. **Permanence.** This is a term used to note the potential reversal of offsets generated by biologically-based projects. Permanence is a type of project risk. Regulations should take steps to minimize the risks posed by the issue of permanence.

5. **Leakage.** Leakage is defined as increases or decreases in GHG emissions outside the project's emissions boundary that occur as a result of the project activity. For example, if a farm decides to cease farming operations to reforest its land, another area of land may be deforested to meet the demand for the farmer's crop. Monitoring & verification plans should provide necessary mechanisms to properly account for leakage over the life of an offset project.

6. **Ownership of Credits.** Emissions reductions generated by offset projects must have clear and defensible rights to ownership and may only be allocated, awarded or counted one time, at any given time, against the GHG emissions of a single entity. It is the Climate Trust's view that the entity that controls or owns the GHG reduction measure is the owner of the offsets.

Geographic scope

The incorporation of greenhouse gas offsets from outside of California into the state's greenhouse gas reduction strategy has been a key source of debate in the initial discussions. While offset projects have important positive social and environmental externalities that are desirable to retain in California, a balance must be struck between these benefits and economic efficiency. By allowing offsets from a broad geographic scope, California can minimize the costs of meeting its ambitious reduction goals while achieving the greatest environmental benefit.

In general, California already has a relatively efficient economy, which means that many of the lowest cost reduction opportunities have already been taken advantage of. California has the fourth lowest emissions per capita in the United States[1] and the fifth lowest emissions per gross state product (in 2001). With offsets playing an increasing role in greenhouse gas regulation and thus facing increasing demand, it is anticipated that the price of offsets will increase. Sourcing offsets from all locations and sectors of the economy allows for the most cost-effective greenhouse gas reduction opportunities to be utilized. In essence, California can realize the greatest "bang for its buck" with the incorporation of offsets from a wide geographic scope.

Innovation and new technology development and deployment

[1] http://www.climatechange.ca.gov/policies/images/fig27.jpg

It has been asserted that the inclusion of greenhouse gas offsets under AB 32 will stifle innovation in capped sectors by providing regulated entities a means of delaying or avoiding investment in lower carbon technologies. While this is a possible result of including offsets in regulatory regimes, this is an unlikely outcome if policy is structured effectively. It is doubtful that offsets will (or should) be allowed to meet 100% of a capped entities compliance obligations, but rather should function as a cost mitigation tool until the necessary conversions and adaptations can be made. Offsets are not intended to serve as a "pay to pollute" mechanism, but rather as a tool to make the most cost-effective reductions in the short term and achieve the greatest environmental gain. Offsets should be viewed as a bridging mechanism from our current carbon intensive economy while new, less greenhouse gas-intensive technologies and practices are developed and deployed. Offsets buy us time by taking us measurably closer to our reduction goals, while making the necessary changes across our economy.

Moreover, offsets can provide an important means of stimulating innovation and technological advancement in uncapped sectors while companies are making the necessary investments in adapting existing infrastructure. Any sector that falls outside of a cap, e.g. the agricultural industry and the trucking industry, currently has little to no incentive to implement greenhouse gas reduction measures whose benefits are primarily environmental. Offset funding can stimulate the development and deployment of these measures, where incentives would otherwise not have existed. The end effect is that environmentally beneficial changes can begin to take root in sectors not affected by a greenhouse gas emissions cap, atmospheric levels of greenhouse gases are reduced, capped entities meet their compliance obligations, and all of society benefits.

Offset project type and eligibility

In order to capture the greatest number of greenhouse gas emission reduction opportunities and to control offset prices it is advisable to include a wide variety of project sectors and types. There are currently a limited number of formal protocols developed to govern the project accounting for offset projects. To date the Regional Greenhouse Gas Initiative has methodologies developed for five offset sectors and the California Climate Action Registry has one, with another due for release in summer 2007. By limiting eligible offsets sectors to those which already have protocols developed, demand will be directed to a few project sectors, constraining supply and driving up price.

The Climate Trust strongly advocates for the inclusion of a "project-to-protocol" approach for compliance under AB 32. One of the most compelling reasons to include greenhouse gas offsets in climate change policy is because of offsets funding's ability to drive capital into new technology development and to promote projects that

otherwise would not have occurred. Under a project-to-protocol approach protocols and accounting methodologies would be developed based on real-world projects and experience. This would allow for a steady stream of new projects to be implemented under AB 32 as the market develops and matures, while allowing for the greatest impact across sectors and project types. This will also help control the cost of offsets and provide a steady stream of new supply until a sufficient number of methodologies and project types are developed.

One option under this proposed approach would be to use the existing protocols developed to date by the California Climate Action Registry, in conjunction with approved offset acquisition entities methodologies or other standards currently under development for the voluntary market, such as the Voluntary Carbon Standard. The emphasis would be on acquiring high quality offsets for which protocols are not in place or are under development. This process could be used to "road test" offset assessment – particularly eligibility and quantification – and inform the selection and development of additional protocols. The State of California could take a lead role in contributing to the maturation of the greenhouse gas reduction market by providing a responsive and comprehensive approach to the development of necessary policy and protocol, without unduly constraining the market through the implementation of a project-to-protocol process.

Summary

Greenhouse gas offsets are an important tool in the fight against climate change and should be included as a component of California's overall emissions reduction strategy. Greenhouse gas offsets will ensure that regulated entities can cost-effectively and efficiently meet their reduction requirements under AB 32, while promoting the stimulation of new technologies and environmental innovation in uncapped sectors.

The Climate Trust's experience and early activity in the greenhouse gas reduction market has demonstrated that offsets are a feasible, sound and economically efficient means of achieving greenhouse gas reductions through public policy. The Climate Trust has demonstrated commitment to quality and environmental integrity while achieving cost-effective greenhouse gas emission reductions, illustrating that greenhouse gas offsets are a viable means of achieving important public policy goals. Incorporating greenhouse gas offsets into California's climate change mitigation policy can help achieve the State's environmental objectives in an efficient and cost-effective manner.